Hong Leong Bank Berhad

(5819 | HLBK MK) Financial Services | Finance

1QFY25 Results: An Encouraging Start

***Maintain* BUY**

***Unchanged* Target Price: RM22.76**

KEY INVESTMENT HIGHLIGHTS

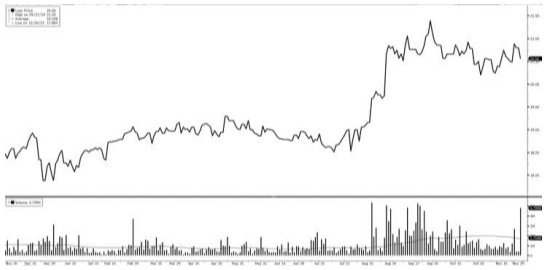
- **3MFY25's Core NP of RM1,090m was *Within/Within* our/street forecasts: *24%/25%* of full-year forecasts**
- **Management's tone: Optimistic**
- **Core themes: (a) NIM improvement, (b) Strong NOII improvement, (c) Good contribution from BOCD**
- **Forecasts unchanged**
- **Maintain BUY | Unchanged TP of RM22.76 | based on an unchanged FY25F P/BV of 1.16x**

RETURN STATISTICS	
Price @ 28 November 2024 (RM)	20.56
Expected share price return (%)	+10.7
Expected dividend yield (%)	+3.7
Expected total return (%)	**+14.4**

Verdict: An encouraging start to the year by hitting the ground running. NIM improvement was key and BOCD have not been a drag.

Yays	1. NIM improvement 2. CASA growth on year-on-year basis 3. NOII growth
Nays	1. Gross loans and deposits a bit weak on a quarterly basis. But this was due to strengthen Ringgit.
OKs	1. Marginal GIL ratio increase

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	-1.4	-0.6
3 months	-4.6	2.2
12 months	8.2	-1.9

INVESTMENT STATISTICS

FYE Jun	FY25F	FY26F	FY27F
Core NP (RM m)	**4,476**	**4,855**	**5,201**
CNP growth (%)	7	8	7
Div yield (%)	**3.7**	**4.0**	**4.3**
Gross DPS (sen)	76.4	82.9	88.8
P/BV (x)	**1.0**	**1.0**	**0.9**
BVPS (RM)	19.6	21.2	23.2
ROE (%)	**11.6**	**11.6**	**11.4**
MIDF/Street CNP (%)	**101**	**102**	

KEY STATISTICS

FBM KLCI	1,597.49
Issue shares (m)	2049.85
Estimated free float (%)	33.50
Market Capitalisation (RM'm)	44,568.28
52-wk price range	RM18.4 - RM21.8
3-mth avg daily volume (m)	1.83
3-mth avg daily value (RM'm)	38.66
Top Shareholders (%)	
Hong Leong Financial Group Bhd	61.82
EPF Board	8.40
Amanah Saham Nasional Bhd	3.25

Results in a nutshell:

▲ **3MFY25's Core net profit (NP) of RM1,090m up by +6%yoy.** Underpinned by robust growth in NII (+10.5%yoy to RM1.24b) and NOII (32.0%yoy to RM354m).

▲ **1QFY25's Core NP of RM1,090m up by +5%qoq.**

▲ **Gross loans grew by -0.4%qoq, coming up to -0.4%YTD.** Quarter-on-quarter performance was affected by a strengthened Ringgit. However, year-on-year saw robust gross loans growth of +6.9%yoy. Retail and Business & Corporates gross loans grew +7.2%yoy and +8.4%yoy respectively.

▲ **Deposits grew by -0.5%qoq, coming up to -0.5%YTD.** Deposits expanded +4.9%yoy to RM219.4b with main contributor coming from CASA (+13.6%yoy to RM70.4b). Meanwhile, FD contracted marginally by -0.3%yoy to RM114.0b.

► **GIL moved by +1bps to 0.54%, LLC currently at 146%.** Marginal increase and not concerning.

Have a look at:

▲**NII was driven by NIM expansion and gross loans growth.** NII grew +10.5%yoy to RM1.24b. This was due to NIM expansion of +8bps on the back of strong CASA growth. Robust yearly gross loans growth was also a factor.

▲**Strong NOII growth.** Wealth management business and GM franchise sales gained traction and drove NOII increase. These grew +32.4%yoy to RM74.2m and +60.3%yoy to RM105.2m.

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▲ **Bank of Chengdu (BOCD) not really a drag.** BOCD continued to be a good contributor to earnings. It saw +11%yoy to RMB9.04b increase in its PAT for 9MFY24 (it has a different financial calendar). Meanwhile, it clocked in a robust ROE of 17.5% with CIR of 24.8%. Nevertheless, the management is focusing on growing the main business. Pre-BOCD earnings came in +8.6%yoy to RM965m.

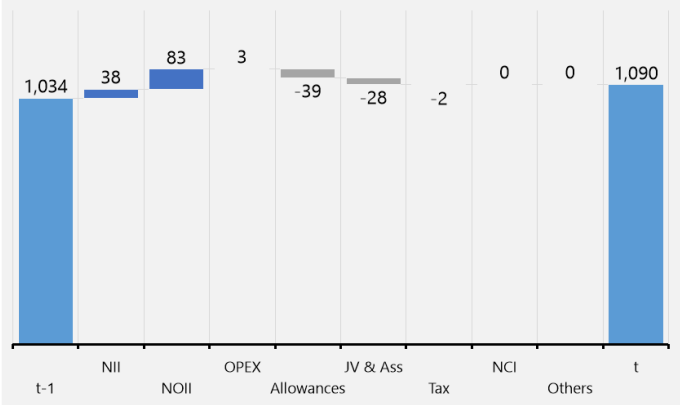
Forecasts unchanged.

Key downside risks. *(1) deposits competition that may compress NIM, (2) higher OPEX, (3) BOCD performance*

Maintain BUY call: Unchanged GGM-TP of RM 22.76. The TP is based on an unchanged FY25F P/BV of 1.16x

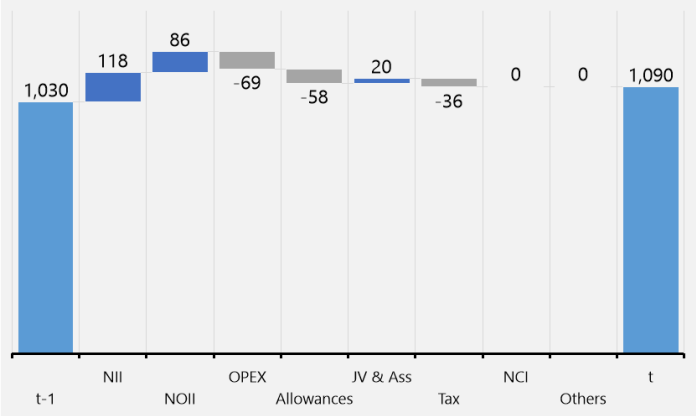
(GGM assumptions: *FY25F ROE of 11.6%, LTG of 4.0% & COE of 10.5%)*

Fig 1: QoQ P/L walk (Quarterly results)



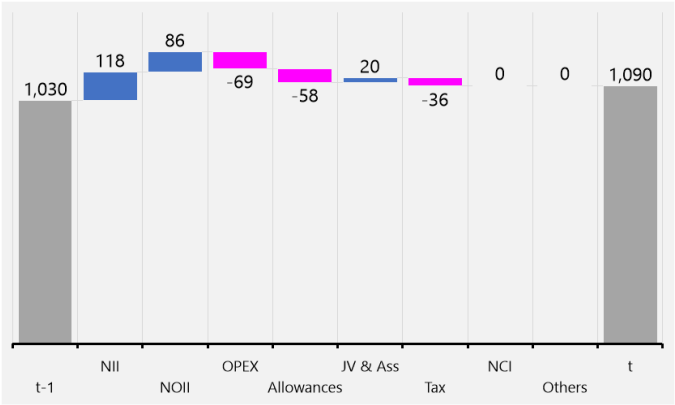
Source: Hong Leong Bank, MIDFR

Fig 2: YoY P/L walk (Quarterly results)



Source: Hong Leong Bank, MIDFR

Fig 3: YoY P/L walk (Cumulative results)



Source: Hong Leong Bank, MIDFR

Fig 4: Quarterly results

FYE Jun (RM m)	1Q FY25	4Q FY24	1Q FY24	Yoy (%)	Qoq (%)	3M FY25	3M FY24	Yoy (%)
Net interest inc.	1,010	981	922	*9.6*	*3.0*	1,010	922	*9.6*
Islamic banking inc.	288	260	230	*25.0*	*10.7*	288	230	*25.0*
Non-interest inc.	300	236	242	*23.9*	*27.3*	300	242	*23.9*
Net income	**1,598**	**1,477**	**1,394**	***14.6***	***8.2***	**1,598**	**1,394**	***14.6***
OPEX	(626)	(628)	(556)	*12.4*	*-0.4*	(626)	(556)	*12.4*
PPOP	**972**	**848**	**838**	***16.1***	***14.6***	**972**	**838**	***16.1***
Loan provisions	(7)	31	51	*-114.6*	*-123.9*	(7)	51	*-114.6*
Other provisions	(0)	0	(0)	*n.m.*	*n.m.*	(0)	(0)	*n.m.*
JV & Associates	375	402	354	*5.7*	*-6.8*	375	354	*5.7*
PBT	**1,339**	**1,282**	**1,243**	***7.7***	***4.5***	**1,339**	**1,243**	***7.7***
Tax	(249)	(248)	(213)	*16.9*	*0.7*	(249)	(213)	*16.9*
NCI	-	-	-	*n.m.*	*n.m.*	-	-	*n.m.*
Reported NP	**1,090**	**1,034**	**1,030**	***5.8***	***5.4***	**1,090**	**1,030**	***5.8***
Core NP	**1,090**	**1,034**	**1,030**	***5.8***	***5.4***	**1,090**	**1,030**	***5.8***
Total NII	1,244	1,206	1,126	*10*	*3*	1,244	1,126	*10*
Total NOII	354	271	268	*32*	*31*	354	268	*32*
Gross DPS (sen)	**-**	**43.0**	**-**	***n.m.***	***n.m.***	**-**	**-**	***n.m.***
Core EPS (sen)	52.9	50.4	50.2	*5*	*5*	52.9	50.2	*5*
Gross loans	194,232	194,927	181,726	*6.9*	*-0.4*			
Gross impaired loans	1,049	1,041	1,030	*1.9*	*0.7*			
Customer deposits	219,437	220,433	209,163	*4.9*	*-0.5*			
CASA	70,358	71,617	61,913	*13.6*	*-1.8*			

Ratios (%)	1Q FY25	4Q FY24	1Q FY24	Yoy (ppts)	Qoq (ppts)	3M FY25	3M FY24	Yoy (ppts)
ROE (Ann.)	**12.3**	**11.6**	**12.6**	***-0.3***	***0.7***	**12.3**	**12.6**	***-0.3***
NIM (Reported)	**1.92**	**1.89**	**1.84**	***0.08***	***0.03***	**1.92**	**1.84**	***0.08***
NOII/Net income	22.1	18.3	19.2	*2.9*	*3.8*	22.1	19.2	*2.9*
Cost/Income	39.1	42.5	39.9	*-0.8*	*-3.4*	39.1	39.9	*-0.8*
NCC (Ann.) (bps)	2	(7)	(12)	*13*	*8*	2	(12)	*13*
GIL ratio	0.54	0.53	0.57	*-0.03*	*0.01*			
Loan loss coverage	146	155	165	*-19*	*-9*			
CASA ratio	32.1	32.5	29.6	*2.5*	*-0.4*			
L/D ratio	87.8	87.7	86.1	*1.7*	*0.1*			
CET-1	13.2	13.3	12.6	*0.6*	*-0.2*			

Source: Hong Leong Bank, MIDFR

FINANCIAL SUMMARY

INCOME STATEMENT

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Net interest income	**3,684**	**3,822**	**4,183**	**4,516**	**4,768**
Islamic banking inc.	963	986	1,141	1,232	1,301
Other operating inc.	1,038	963	1,117	1,122	1,155
Net income	**5,686**	**5,771**	**6,441**	**6,870**	**7,224**
OPEX	(2,233)	(2,339)	(2,641)	(2,817)	(2,962)
PPOP	**3,452**	**3,432**	**3,800**	**4,053**	**4,262**
Loan allowances	(115)	114	(202)	(215)	(229)
Other allowances	0	(1)	(0)	(0)	(0)
JV & Associates	1,289	1,589	1,827	2,047	2,272
PBT	**4,627**	**5,134**	**5,426**	**5,884**	**6,304**
Tax & zakat	(808)	(938)	(949)	(1,030)	(1,103)
NCI	-	-	-	-	-
Reported NP	**3,818**	**4,196**	**4,476**	**4,855**	**5,201**
Core NP	**3,852**	**4,196**	**4,476**	**4,855**	**5,201**
Total NII	4,552	4,669	5,164	5,575	5,887
Total NOII	1,134	1,102	1,277	1,294	1,337

BALANCE SHEET

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Cash & ST funds	8,644	6,452	7,408	7,716	7,864
Investment securities	70,736	75,667	74,126	72,968	72,166
Net loans	179,903	193,304	207,103	220,676	235,052
Other IEAs	0	297	0	0	0
Non-IEAs	20,568	22,069	21,305	26,265	33,386
Total assets	**279,850**	**297,789**	**309,942**	**327,624**	**348,468**
Customer deposits	211,652	220,433	236,084	251,193	267,269
Other IBLs	22,677	26,863	27,081	27,554	28,062
Non-IBLs	11,535	13,199	6,567	5,461	5,581
Total liabilities	**245,864**	**260,495**	**269,732**	**284,208**	**300,912**
Share capital	7,739	7,739	7,739	7,739	7,739
Reserves	26,248	29,555	32,471	35,677	39,816
Shareholders' funds	**33,987**	**37,294**	**40,210**	**43,417**	**47,555**
NCI	0	0	0	0	0
Total equity	**33,987**	**37,294**	**40,210**	**43,417**	**47,555**
Total L&E	**279,850**	**297,789**	**309,942**	**327,624**	**348,468**
Total IEAs	259,282	275,720	288,637	301,360	315,082
Total IBLs	234,328	247,296	263,165	278,747	295,331
Gross loans	181,677	194,927	208,572	222,130	236,568
CASA	65,097	71,617	75,547	82,894	90,872

FINANCIAL RATIOS

FYE Jun (RM m)	FY23	FY24	FY25F	FY26F	FY27F
Interest (%)					
NIM	1.83	1.75	1.83	1.89	1.91
Return on IEAs	3.02	3.28	3.25	3.26	3.23
Cost of funds	1.72	2.06	1.96	1.88	1.81
Net interest spread	1.30	1.22	1.30	1.38	1.42
Profitability (%)					
ROE	**11.9**	**11.8**	**11.6**	**11.6**	**11.4**
ROA	1.4	1.5	1.5	1.5	1.5
NOII/Net income	19.9	19.1	19.8	18.8	18.5
Effective tax rate	17.5	18.3	17.5	17.5	17.5
Cost/Income	39.3	40.5	41.0	41.0	41.0
Liquidity (%)					
Loan/Deposit	85.0	87.7	87.7	87.9	87.9
CASA ratio	30.8	32.5	32.0	33.0	34.0
Asset Quality (%)					
GIL ratio	0.57	0.53	0.50	0.50	0.49
LLC ratio	169	155	140	130	130
LLC (w. reserves)	265	276	199	186	183
Net CC (bps)	7	-6	10	10	10
Capital (%)					
CET 1	12.8	13.3	13.9	14.0	14.0
Tier 1 capital	13.9	14.3	14.9	14.9	14.8
Total capital	15.9	16.3	16.8	16.8	16.7
Growth (%)					
Total NII	-1.4	2.6	10.6	8.0	5.6
Total NOII	15.7	-2.8	15.9	1.4	3.3
Net income	1.6	1.5	11.6	6.7	5.2
OPEX	6.4	4.7	12.9	6.7	5.2
Core NP	24.1	8.9	6.7	8.5	7.1
Gross loans	8.0	7.3	7.0	6.5	6.5
Customer deposits	7.3	4.1	7.1	6.4	6.4
CASA	-1.4	10.0	5.5	9.7	9.6
Valuation metrics					
Core EPS (sen)	188.0	204.8	218.4	236.9	253.8
Gross DPS (sen)	59.0	68.0	76.4	82.9	88.8
Div payout (%)	31	33	35	35	35
BVPS (RM)	16.6	18.2	19.6	21.2	23.2
Core P/E (x)	10.9	10.0	9.4	8.7	8.1
Div yield (%)	**2.9**	**3.3**	**3.7**	**4.0**	**4.3**
P/BV (x)	1.2	1.1	1.0	1.0	0.9

Source: Hong Leong Bank, MIDFR

Income Statement	Balance Sheet	Valuations & Sector
Core NP – Core Net Profit	LCR – Liquidity Coverage ratio	ROE – Return on Equity
PPOP – Pre-Provisioning Operating Profit	L/D ratio – Loan/Deposit ratio	GGM – Gordon Growth Model
NII – Net Interest Income	CASA – Current & Savings accounts	P/BV – Price to Book Value
NIM – Net Interest Margin	FD – Fixed Deposits	BVPS – Book Value per Share
COF – Cost of Funds	GIL – Gross Impaired Loans	BNM – Bank Negara Malaysia
NOII – Non-Interest Income	NIL – Net Impaired Loans	OPR – Overnight Policy Rate
MTM – Mark to Market	LLC – Loan Loss Coverage	SRR – Statutory Reserve Requirement
CIR – Cost to Income Ratio	NCC – Net Credit Costs	SBR – Standardised Base Rate
OPEX – Operational Expenses	GCC – Gross Credit Costs	ALR – Average Lending Rate
	CET 1 – Common Equity Tier 1	

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology